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MINISTRY OF FINANCE

ECONOMY COMMITTEE

GOVERNMENT OF INDIA

New Delhi, the 18th April, 1949.

From

G. S. RAU, Esquire,
Secretary, Economy Committee, New Delhi.

To

The Secretary to the Government of India,
Ministry of Finance, New Delhi.

Sir,

Report of the Economy Committee on the Indian Audit Department.

I am directed to forward herewith the Report (with two spare copies) of the Economy Committee on the Indian Audit Department.

2. The recommendations in the report have been made after detailed discussions with the Auditor-General, who has had an opportunity to see the report in draft; and are generally acceptable to him.

3. The report has not been signed by Shri S. K. Patil, who has, however, approved of it. His signature will be affixed to the report on his arrival in Delhi.

Yours faithfully,

G. S. RAU.

THE AUDITOR GENERAL OF INDIA

1. *Constitutional Position.*—The Auditor General is a statutory authority entrusted with the responsibility for the audit of the accounts of Government. He is also to a large extent responsible for the maintenance of the accounts of the Central and Provincial Governments. This position will continue after the enactment of the new constitution but there is a provision in the draft constitution empowering a State Legislature to set up after the expiry of at least three years from the date on which the new constitution comes into force its own Auditor-in-Chief. The existing as well as the new constitution contain various safeguards to ensure the independent status of the Auditor General.

2. *Organisation.*—The maintenance of accounts of every Provincial Government and their audit are in charge of an Accountant General except in Orissa and Assam where junior officers in the grade of a Comptroller are in charge. To look after the accounts and audit of the Central Government except Defence and Railway accounts, there are the three Accountants-General, viz for Central Revenues, for 'Supply', 'Food and Relief' and for the Posts and Telegraphs. The Armed Forces and the Railway Administration have their own accounts Organisations and the Auditor General is responsible only for audit which he conducts through the Director of Audit, Defence Services and the Director of Railway Audit. The expenditure on audit of Defence and Railways Accounts and that on maintenance of accounts and audit on Posts and Telegraphs accounts is debited to the Defence estimates, the Railway and the P. and T. Departments respectively. For the audit of expenditure in the United Kingdom there is an Auditor of Indian Home Accounts in London who came under the control of the Auditor General only from August 1947. The expenditure of Indian revenues outside India and the United Kingdom, is a comparatively recent development. The expenditure in United States of America is under the audit of the Accountant General, "Food, Supply and Relief" while the Accountant General, Central Revenues is responsible for the audit of expenditure elsewhere outside India. These arrangements seem to have been made *ad hoc*. In view of the increasing volume of such expenditure, effective arrangements for their audit are an urgent necessity.

3. *Present Position.*—With the vast increase in the Government expenditure in India during and after the war, there has been considerable increase in the volume and complexity of the work of the Auditor General. On the other hand, recruitment to the permanent services were stopped during the war and the Auditor General was called upon in the larger interest of the country to provide a large number of officers to assist the civil administration. Notwithstanding the termination of the war, the demands on the Auditor General for his experienced officers to strengthen the general administration continues. Against 101 duty posts in the Audit Department intended to be filled by officers of the Indian Audit and Accounts Service only 39 officers of the Service were available for duty in the Department in December 1948. To meet this deficit an Emergency Cadre of the Indian Audit and Accounts Service was created, and the rest of the posts had to be filled by promoted officers of the Class II Service. In these circumstances, the Auditor General was not in a position to discharge his responsibilities fully. In the year 1948 various

relaxations in Audit were introduced by the Auditor General. These facts were brought by him to the notice of the Public Accounts Committee. While these relaxations may have been justified as a war-time measure, it would be wrong to make them a normal feature of Audit.

4. An independent and effective audit is an instrument under the constitution whereby Government can be informed of the financial weakness of the administration and can thus control its officers and set its own house in order. The Audit Report of the Auditor-General presented to the Government and examined by the Public Accounts Committee enables the legislature to exercise its control over the financial administration of the Government. With the attainment of independence the Auditor-General's responsibilities are increasing. He has to make arrangements for the audit and accounting of expenditure of over Rs. 180 crores incurred on organisations and purchases abroad and admittedly there exists hardly any machinery for conducting effective audit at present. Again he will very soon be called upon to undertake new and additional responsibilities partly in connection with the various States commercial and industrial enterprises and partly as a result of constitutional changes now taking place in regard to the States. The Audit and Accounts Organisation should therefore be immediately strengthened and reorganised. Such reorganisation should provide for not only adequate staff but also for a sound system of training to be given to them. The relaxations in audit permitted in 1932 and 1943 should be carefully reviewed and every effort made to restore audit as early as possible to the extent considered necessary for safe-guarding the finances of the country and the interests of the taxpayer.

5. It should also be mentioned here that since 1937, a convention known as the 'concordat' (*vide* Annexure I) has governed the relations between the Auditor General and the Finance Ministry both of the Central and certain provincial Governments. Under this, the Auditor General has volunteered to desist from criticising in his annual Audit Report and Appropriation Accounts any action of the Finance Ministry unless it is considered by him as "illegal", mala fide or contrary to the "vital interests of the State". The result of this 'concordat' is likely to prevent Members of the Legislature from receiving from the Auditor-General a full and frank expression of opinion on the action of Government with regard to Finance. It also causes considerable delay in the presentation of the Audit Report to the Public Accounts Committee. In order to enable the Auditor General to function efficiently and to keep the Legislature fully apprised of the manner in which the Executive is discharging its financial responsibilities, the Concordat should be abolished.

It may be an advantage to arrange that the Auditor General makes periodical reports on serious financial irregularities as and when they come to his notice, without waiting for their incorporation into the final Audit Report after the close of the year's accounts, but this a matter which should be settled in consultation with the Public Accounts Committee and the Government.

6. When the Auditor General appeared before our Committee he expressed himself strongly in favour of setting up separate organisations for the maintenance of accounts, and for the conduct of audit, the latter only being made the statutory responsibility of the Auditor General. In his view, the present system was unsound in many ways. While in principle this is correct, and in line with the practice in other advanced countries, we feel, and the Auditor General agrees with us, that such a

change will be impracticable for years to come. It will require a considerable augmentation of staff, while there is not sufficient staff at present even for a combined system of audit and accounts.

7. The expert advice of the Auditor General should be useful to the Ministry of Finance in the framing of rules, the ultimate application of which will have to be watched by the Auditor General and his staff. The background that such consultation will give will enable the Auditor General to apply the rules correctly and to plan intelligent rather than mere routine audit. It is also essential that the Auditor General should be advised in advance regarding the development programmes of Government so that he can, on his part, plan the necessary accounts and audit organisations. We recommend that in such matters there should be close liaison between the Ministry of Finance and the Auditor General.

8. In our earlier reports, we have recommended the setting up of separate corporations for the management of Government industrial undertakings. But as these corporations will be spending large amounts of money provided by the state, it is imperative that their transactions are subjected to a careful and intelligent audit conducted by the Auditor General to ensure that the revenues are spent to the best advantage. Such audit will have to be conducted also against the propriety of expenditure, having regard to the purposes underlying the formation of the corporation. A copy of the Audit Report should be sent to the Directorate of the Corporation for taking suitable action and important irregularities reported to the Finance Ministry and the Legislature through the Audit Report.

9. A strong and efficient Audit Department is the best ally that the Finance Ministry can have in ensuring a high standard of administrative integrity and safeguarding the interests of the taxpayer. But the general conclusion that we have reached is that the Department has for various reasons been considerably weakened in recent years and requires strengthening and reorganisation in the matter of personnel training, and its working processes. Such reorganisation will be effective only gradually, but it should be undertaken without any delay. We understand, that a certain number of officers recruited through a competitive examination have recently been transferred to the Auditor General. The Ministry of Finance should ensure that the Auditor General is given the necessary facilities in the further measures that he proposes for the reorganisation. This is a matter which the Parliament will no doubt watch with considerable interest, as a means of strengthening its own control over the whole field of Governmental activity.

KASTURBHAI LALBHAI. *Chairman.*

B. DAS, S. K. PATIL, JAIPAL SINGH, ISHWAR DAYAL,	}	<i>Members.</i>
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P. V. R. RAO,
Officer on special duty.

G. S. RAU,
Secretary.

New Delhi the 18th April, 1949.

ANNEXURE I (Paragraph 5)

Statement of the relations of Audit with the General Executive Government under the new Constitution.

1. *The Secretary of State.*—(a) In certain matters the Secretary of State will retain the power of taking overt action in the executive field after the 1st April 1937. Mainly he will retain the power of issuing or amending rules affecting the conditions of service of Services under his control. The Auditor General has the unqualified right to compel a reference to the Secretary of State where in the course of his audit he finds that any authority in India has usurped a power retained absolutely by the Secretary of State.

(b) While retaining ultimately powers of this description, the Secretary of State may delegate the exercise of some of them to certain authorities in India. The relations of Audit with such authorities in their exercise of such powers will be the same as if such powers were inherently their own (*vide* paragraph 2 below).

(c) In all other matters the Secretary of State will cease to exercise any overt authority after the 1st April 1937. But he will retain some measure of control through directions issued under section 14 and kindred sections of the Act. The responsibility for seeing that such directions, when they are of a financial or quasi-financial character, are observed will rest on the Finance Department and not on the Auditor General. But the Finance Department will communicate all such directions to the Auditor General informally and he will informally bring to the notice of the Finance Department any circumstances in which he considers that they have been infringed.

2. *The Central Executive Government in India.*—For the purposes of this memorandum the Central Government may be regarded as consisting of a Finance Department and other Departments.

(1) *Other Departments.*—Departments other than the Finance Department will continue to have “delegated” to them certain financial powers. In the course of audit the Auditor General will bring to the notice of those Departments and if necessary to the notice of the Finance Department any cases in which such Departments have exceeded their powers, or have exercised their powers in a manner which the Auditor General may consider open to objection.

(2) *Finance Department.*—At a risk of over-simplification it may be stated that all residual financial powers of the Central Executive Government will vest in its Finance Department. The relations of Audit, with the Finance Department in the exercise of the latter’s original or [*vide* sub-paragraph (1) above] appellate powers will be as follows:

- (a) The Finance Department will welcome the views and advice of the Auditor General on any financial matter whether it falls strictly within the scope of audit or not.
- (b) On a matter which falls within the scope of audit the Auditor General, having given expression to his views, will not openly and formally question the action which the Finance Department may take unless such action is:—
 - (i) illegal; that is to say, contrary to law, to rules having the force of law issued by the Secretary of State or otherwise or to an authoritative formula of constitutional or financial principle,

or to a valid condition or restriction imposed by the Legislature:

- (ii) in the judgment of the Auditor General, evidently *mala fides* (isolated cases of suspected *mala fides* would not ordinarily fall within this condition);
- (iii) contrary to the vital interests of the State and in circumstances where the matter in question is, in the judgment of the Auditor General, of such importance that he will consider himself justified in deliberately incurring the risk of bringing down the Government by exposing it.
- (c) The Auditor General will be at liberty to record either in the Appropriation Accounts or in an Audit Report, cases of losses, writes-off, or nugatory expenditure with, subject to the terms of part (b) of this paragraph, any comment he thinks fit to make on them.

3. In matters covered by sub-paragraph (2) (b) (i), (ii) and (iii) above the Auditor General would consider it his duty to make a report of the circumstances to the Legislature through the Public Accounts Committee. Otherwise, the matters which the Auditor General will put before the Committee through his Report on the Appropriation Accounts will, subject to what is stated in paragraph 6 below, be solely matters within the strict purview of the Committee as prescribed in the Indian Legislative Rules defining its functions.

4. In the past there has been a tendency for the Finance Department to condone the financial misdeeds of other Departments either—

- (a) by automatically according *ex post facto* sanction to obvious irregular charges or actions, or
- (b) by supporting or condoning, or at least by refraining from opposing, other Departments before the Public Accounts Committee.

thus leaving the Auditor General unsupported in his public attempts at remedying defects or at bringing offending Departments to book.

5. In future a much closer community of aims should exist between the Finance Department and the Auditor General whereby both may join forces in publicly opposing and condemning serious financial errors of other Departments. The Finance Department in future should not as a matter of course accord *ex post facto* sanction in circumstances where it would not have been prepared to accord an original sanction. A charge thus unsanctioned would of necessity be brought to notice by the Auditor General in his Appropriation Report under paragraph 2(b) (i) above, and the Department concerned would, as in England, be left to defend itself before the Public Accounts Committee against the combined opposition of the Auditor General and the Finance Department.

6. But the Auditor General will in his Appropriation Reports restrict his references to individual matters to cases of real importance. Where a Department, either through the intervention of the Audit Department or otherwise, has, to the reasonable satisfaction of the Audit Department, rectified an irregularity, such a case will ordinarily not appear in the Appropriation Report at all. It will therefore, be to the advantage of the Departments to expedite the disposal of audit queries. The same principle will apply in regard to cases of irregularities referred to the

Finance Department. Unless the action taken by the Finance Department falls into one or other of the categories specified in paragraph 2 (2) (b) above the requisite sanction of the Finance Department will ordinarily mean that the case is omitted from the Appropriation Report.

7. At present Appropriation Accounts and Reports contain a fair amount of financial material and financial comment not within the strict scope of the Public Accounts Committee. The documents presented to the Committee will in future deal only with matters strictly within its jurisdiction as laid down in the rule which has been proposed to replace the existing rule in the Indian Legislative rules.

8. But as the Auditor General is required under section 169 of the Act to submit to the Central Government for presentation to the Legislature his "Report relating to the accounts" of that Government, something more will be required of him than what will be presented to the Public Accounts Committee. Also much of the extra material is of considerable value to the Finance Department. This gap will be repaired by the preparation of something on the lines of the English Finance Accounts. These will be submitted by the Auditor General to the Central Government for presentation to the Legislature—but not in stated terms to the Public Accounts Committee.

9. It is recognised that the Finance Accounts, including as they will accounts of revenue, will not be fully audited accounts, but they will at least bear the imprimature of the Auditor General as being a correct statement of sums brought to account. It may be thought advisable in due course to extend the Auditor General's functions in the matter of the audit of receipts, and if so income-tax receipts will probably be the most fruitful field in the first instance.